MESSAGE FROM THE CHIEF FINANCIAL OFFICER

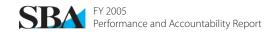
I am pleased to submit the U.S. Small Business Administration's (SBA) Performance and Accountability Report for FY 2005. This report provides the SBA's program and financial results as required by the Reports Consolidation Act.

FY 2005 was another strong year for the SBA in the area of financial management. SBA's unqualified opinion from its independent auditors reflects the progress we have made and the improved quality of our financial statements. By building on the improved processes and procedures we have put in place over the past several years, the Office of the Chief Financial Officer (OCFO) was able to address virtually all of the issues identified in last year's audit and complete our financial statements within the accelerated schedule for the second year in a row. We made substantial improvements in the internal controls surrounding our subsidy modeling reestimate process as demonstrated by the elimination of this as a material weakness in the audit report this year. We also made substantial progress in improving our financial management and reporting processes, as evidenced by the reduction in findings and recommendations in the audit report compared to last year, but this area continued to be identified as a material weakness by our auditor.

SBA made significant updates to its credit subsidy reestimate models in FY 2003 and FY 2004. Because of these prior improvements, during FY 2005, SBA was able to minimize the changes made to the models and focus on further strengthening the internal control process around the development of the subsidy cost reestimates. All reestimates and the established quality assurance reviews were completed within our planned schedule this year. SBA's numerous internal reviews and the auditor's review of the subsidy estimates yielded only a few findings and concerns which we were able to address in a timely manner. This is a significant improvement for SBA and because the credit programs constitute the vast majority of SBA's financial activity, reflects the marked improvement in the overall quality of our financial statements and our estimation and reporting processes.

In financial management and reporting, SBA was also able to leverage and build on improvements made in prior years. Using our team-based approach, OCFO undertook a number of initiatives to address last year's audit findings. Key initiatives included the following:

- Developed and managed ourselves to a comprehensive plan with firm milestones for meeting the accelerated financial statement deadline;
- Conducted a "best practices" review of other agencies' footnotes and reviewed all existing guidance to improve SBA's footnotes;
- Developed several new analytical procedures that are being conducted monthly and quarterly throughout the year; and
- Worked aggressively with our program offices to ensure all open obligations were legitimate and that completed obligations were closed in a timely manner.



While these efforts did result in an improved audit opinion for SBA, this area remains designated as a material weakness. The loan origination process continues to be a challenging area for financial reporting purposes. SBA made its own adjustment for obligations associated with disaster loans approved but not yet disbursed and ultimately our auditor recommended a second, material adjustment in that area. Particularly given the SBA's extraordinary level of disaster loan activity in response to the Gulf Coast hurricanes, resolving this issue will be an area of top priority in the coming year.

Near the end of FY 2004, SBA established an independent Audit and Financial Management Advisory Committee (AFMAC). During FY 2005, the Committee was well engaged in the financial reporting process and audit cycle, providing oversight of activities and making recommendations for our financial statement footnotes and the PAR. We are proud to have one of the few independent audit committees within the government and appreciate the opportunity to have such an esteemed group of professionals advising us.

During FY 2005 SBA also upgraded its administrative accounting system based on Oracle's Federal Financial software. Planning, development, and testing were completed during FY 2004 and at the start of FY 2005, SBA switched to Oracle 11i. This software upgrade provided additional administrative accounting functionality and helped reduce the number of manual adjustments required in preparing our financial reports.

The SBA also continued to make important strides in budget and performance integration this year. Our ongoing efforts were reflected in our green "status" in the President's Management Agenda throughout FY 2005. We continued to use and improve upon our cost accounting model. The Agency is in the third year of its five-year strategic plan, so we are on our way to achieving consistency across our strategic plan and our budget and accounting formulation and execution reports. Our program and results cost estimates continue to improve and the SBA demonstrated its commitment to using this information in the budget allocation process again this year.

Finally, SBA began planning for the new financial reporting internal control requirements under OMB Circular A-123 which become effective for the FY 2006 reporting cycle. SBA developed an implementation plan and has begun executing against the plan. We are confident we will be able to comply with the new standards this coming reporting cycle.

In summary, FY 2005 was another successful year in financial management at the SBA. While we are disappointed that the material weakness on financial reporting from last year remained, we are confident we can resolve the remaining issues in the coming year. We will continue to use the principles of the President's Management Agenda as a guide for the SBA's initiatives to improve financial performance in the coming year. Thank you for your interest in our FY 2005 Performance and Accountability Report.

Thomas Dumaresa Chief Financial Officer